

**PINE HILL WATER WORKS DISTRICT NO. 8**

**CADDO PARISH, LOUISIANA**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED JULY 31, 2004**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2-2-05

**PINE HILL WATER WORKS DISTRICT NO. 8**

**CADDO PARISH, LOUISIANA**

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*REQUIRED SUPPLEMENTAL INFORMATION*

**PINE HILL WATER WORKS DISTRICT #8  
P. O. BOX 78360  
CADDO PARISH, LA 71137-8360**

**Management's Discussion and Analysis (Unaudited)**

Our discussion and analysis of the Pine Hill Water Works District #8 financial performance provides an overview of the District's financial activities for the fiscal year ended July 31, 2004. Please read it in conjunction with the District's financial statements, which begin on page 5.

**FINANCIAL HIGHLIGHTS**

The District's net assets decreased by \$68,846 or 16%.

The District's total revenues were \$448,345 in 2004 compared to \$462,650 in 2003.

During the year ended July 31, 2004 the District had total expenses, excluding depreciation, of \$441,976 compared to \$446,617 in 2003.

**USING THIS ANNUAL REPORT**

This annual report consists of three parts; management's discussion and analysis, the basic financial statements, and required supplemental information. The statement of net assets provides long-term and short-term information about the District's financial status. The statements of revenue, expenses, and changes in net assets and statements of cash flows provide historical data on the District's business-like activities. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. Pine Hill Water Works District #8 is a component unit of the Parish of Caddo, Louisiana because the Parish must approve all officials appointed to the District's Board of Commissioners. The accompanying financial statements present information only on the funds maintained by the District.

**FINANCIAL ANALYSIS OF THE DISTRICT**

**Net Assets**

The following table summarizes the financial status of the District:

<b>Net Assets</b>			
<b>(in thousands of dollars)</b>			
	<b>2004</b>	<b>2003</b>	<b>% Change</b>
Current and other assets	187	158	18.35%
Capital assets	389	458	-15.07%
Total assets	576	616	-6.49%
Long-term debt outstanding	78	96	-18.75%
Other liabilities	150	103	45.63%
Total liabilities	228	199	14.57%
Investment in capital assets	329	380	-13.42%
Restricted	20	21	-4.76%
Unrestricted	(1)	16	-106.25%
Total net assets	348	417	-16.55%

Increases or decreases in the District's net assets are one indicator of whether its financial position is improving or deteriorating. The District's financial position has declined during the past year. Upcoming user rate increases will improve the situation.

**Changes in Net Assets**

The following table summarizes the change in the District's net assets:

<b>Change in Net Assets</b> <b>(in thousands of dollars)</b>			
	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Revenues			
Fees and charges for service	448	463	-3.24%
Interest income	-	1	
Total revenues	<u>448</u>	<u>464</u>	<u>-3.45%</u>
Expenses			
Water operations	441	447	-1.34%
Depreciation	71	76	-6.58%
Interest expenses	5	5	0.00%
Total expenses	<u>517</u>	<u>528</u>	<u>-2.08%</u>
Change in net assets	<u>(69)</u>	<u>(64)</u>	<u>7.81%</u>

The decrease in revenues is a result of lower customer consumption. The District strives to maintain a maintenance plan to prevent large problems. The Board is continuing to review fluctuations and is charged with maintaining a rate for its customer services that will cover the operations and debt service.

**CAPITAL ASSETS**

At July 31, 2004, the District had invested \$1,261 thousand in capital assets, including land, water system infrastructure, a vehicle, and equipment. Minimal additional investments were made this fiscal year.

**Capital Assets**  
**(Net of depreciation, in thousands of dollars)**

	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Land	20	20	0.00%
Office building	57	60	-5.00%
Water system	308	371	-16.98%
Machinery and equipment	4	7	-42.86%
Total	<u>389</u>	<u>458</u>	<u>-15.07%</u>

No capital projects are currently budgeted for the fiscal year ending July 31, 2005.

## LONG-TERM DEBT

At year-end the District had \$78 thousand in revenue bonds outstanding, a decrease of 19% over last year, as shown in the following table.

### Outstanding Bonds Payable (in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Revenue bonds	<u>78</u>	<u>96</u>	<u>-18.75%</u>
Total	<u>78</u>	<u>96</u>	<u>-18.75%</u>

This financial report is designed to provide the constituents and taxpayers with a general overview of the finances for the funds maintained by the Pine Hill Water Works District #8 and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's office at 4922 North Market St., Shreveport, LA, 71107.

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**Independent Auditor's Report**

The Board of Commissioners  
Pine Hill Water Works District #8  
Caddo Parish, Louisiana

I have audited the accompanying financial statements of Pine Hill Water Works District #8, a component unit of Caddo Parish, Louisiana, as of and for the year ended July 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pine Hill Water Works District #8 as of July 31, 2004, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 15, 2004 on my consideration of Pine Hill Water Works District #8 internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

  
Richard C. McCallister  
November 15, 2004

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*BASIC FINANCIAL STATEMENTS*

**PINE HILL WATER WORKS DISTRICT #8**  
**STATEMENT OF NET ASSETS**  
**July 31, 2004**

**ASSETS**

**Current Assets**

Cash and cash equivalents	49,594
Certificate of deposit	28,500
Accounts receivable - Note 3	48,172
Prepaid expenses	<u>15,671</u>
 Total current assets	 141,937

**Noncurrent Assets**

Restricted cash and cash equivalents	
Revenue sinking fund	1,876
Reserve sinking fund	22,000
Depreciation and contingency fund	15,000
Customer deposits	6,867
Capital assets - Note 4	388,558
Utility deposit	<u>50</u>
 Total other assets	 434,351

Total assets	<u>576,288</u>
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The accompanying notes are an integral part of these financial statements.

**PINE HILL WATER WORKS DISTRICT #8**  
**STATEMENT OF NET ASSETS**  
**July 31, 2004**

**LIABILITIES**

**Current Liabilities (Payable from current assets)**

Accounts payable	70,789
Notes payable-insurance - Note 5	10,420
Total	<u>81,209</u>

**Current Liabilities (Payable from restricted assets)**

Revenue bonds payable	19,000
Customer deposits held	6,867
Total	<u>25,867</u>

Total current liabilities 107,076

**Noncurrent Liabilities**

Revenue bonds payable - Note 5	59,000
Customer deposits held	61,801

Total non-current liabilities 120,801

Total liabilities 227,877

**NET ASSETS**

Invested in capital assets, net of related debt	329,558
Restricted	19,876
Unrestricted	<u>(1,023)</u>

Total net assets 348,411

The accompanying notes are an integral part of these financial statements.

**PINE HILL WATER WORKS DISTRICT #8**  
**STATEMENT OF REVENUE, EXPENSES, AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JULY 31, 2004**

<u>Operating Revenues</u>	
Fees and charges for services	<u>448,345</u>
<u>Operating Expenses</u>	
Water purchases	145,651
Personal services	101,623
Well site and severance fees	21,036
Utilities	28,438
Maintenance of property and equipment	85,162
Professional services	17,950
Insurance and surety bonds	19,125
Office expenses	17,775
Travel	2,796
Conferences	830
Bad debts	1,590
Depreciation	<u>70,585</u>
Total operating expenses	<u>512,561</u>
Operating Income	<u>(64,216)</u>
<u>Non-Operating Revenue (Expense)</u>	
Interest income	392
Interest and fiscal charges	<u>(5,022)</u>
Total non-operating revenue (expense)	<u>(4,630)</u>
Change in net assets	(68,846)
Net assets-beginning of year	<u>417,257</u>
Net assets-end of year	<u><u>348,411</u></u>

The accompanying notes are an integral part of these financial statements.

**PINE HILL WATER WORKS DISTRICT #8**  
**STATEMENT OF CASH FLOW**  
**INCREASE (DECREASE) IN CASH, AND CASH EQUIVALENTS**  
**FOR THE YEAR ENDED JULY 31, 2004**

<b><u>Cash Flows From Operating Activities</u></b>	
Cash received from customers	441,464
Cash payments to suppliers for goods and services	(301,446)
Cash payments for personal services	<u>(101,623)</u>
Net cash provided by operating activities - Note 6	<u>38,395</u>
<b><u>Cash Flows From Non-Capital Financing Activities</u></b>	
Deposits received from customers	<u>10,698</u>
Net cash from non-capital financing activities	<u>10,698</u>
<b><u>Cash Flows From Capital and Related Financing Activities</u></b>	
Principal paid on revenue bonds	(18,000)
Interest paid on revenue bonds	(5,022)
Investment in capital assets	<u>(1,346)</u>
Net cash used for capital and related financing activities	<u>(24,368)</u>
<b><u>Cash Flows From Investing Activities</u></b>	
Investment in certificate of deposit	(18,500)
Interest on investments	<u>392</u>
Net cash used in investing activities	<u>(18,108)</u>
Net increase (decrease) in cash and cash equivalents	<u>6,617</u>
Cash and cash equivalents at beginning of year	<u>88,720</u>
Cash and cash equivalents at end of year	<u><u>95,337</u></u>

The accompanying notes are an integral part of these financial statements.

**PINE HILL WATER WORKS DISTRICT #8**  
**NOTES TO FINANCIAL STATEMENTS**  
**JULY 31, 2004**

**INTRODUCTION**

1. Pine Hill Water Works District #8 was created by the Caddo Parish Commission and is a subdivision thereof. This report includes all funds controlled by Pine Hill Water Works District #8. The District is considered a component unit of the Caddo Parish Commission, and will be included in the Commission's financial report for 2005.
2. The District was formed to operate a public water system north of Shreveport, Louisiana.
3. Its five Board members are appointed by the Caddo Parish Commission and are compensated \$60 each per meeting attended.
4. The District is located north of Shreveport, Louisiana.
5. The District serves approximately 1,300 customers.
6. The District employs 3 full-time employees.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION**

The accompanying financial statements of the Pine Hill Water Works District #8 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The District has adopted the provisions of Statement No. 34 of the Governmental Standards Board, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." Statement No. 34 established standards for all state and local governmental entities that includes a statement of net assets; a statement of revenues, expenses and changes in net assets; and a statement of cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## **B. REPORTING ENTITY**

The District is a component unit of the Caddo Parish Commission, the financial reporting entity. The Commission is financially accountable for the District because it appoints a voting majority of the Board and has the ability to impose its will on them.

The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Commission, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

## **C. FUND ACCOUNTING**

The Pine Hill District is organized and operated on a fund basis whereby a self-balancing set of accounts (Enterprise Fund) is maintained that comprises its assets, liabilities, net assets, revenues and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

## **D. BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The Enterprise Fund uses the following practices in recording certain revenues and expenses:

### **Revenues**

*Fees and charges for services are billed at the end of the month earned and are due by the 20<sup>th</sup> of the following month. This revenue is recorded as income in the month earned.*

## **Expenses**

Operating expenses are recorded when incurred. Interest expense is accrued at the end of each period and included as expense.

### **E. CASH AND CASH EQUIVALENTS**

Cash includes amounts in demand deposits, interest-bearing demand deposits, and time deposits. The District considers time deposits and those investments with maturities of 90 days or less as cash equivalents. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

### **F. PREPAID ITEMS**

Items paid in the current year benefiting future periods are set up as assets.

### **G. RESTRICTED ASSETS**

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, other funds set aside for specific purposes are also classified as restricted. The District uses restricted resources to fund appropriations before using unrestricted resources.

### **H. CAPITAL ASSETS**

Capital assets of the District are included on the balance sheet of the fund at cost. Interest costs incurred during construction are not capitalized. Capital assets are being depreciated on a straight-line basis over the following years:

Water system	20 - 50
Office building	35
Machinery and equipment	5 - 10

### **I. COMPENSATED ABSENCES**

The District has adopted a leave policy. The policy provides for accumulation and vesting of leave; however, no provision is made for accumulation and vesting of leave due to its small amount.

### **J. LONG-TERM LIABILITIES**

Long-term liabilities are recognized within the Enterprise Fund.

## K. USE OF ESTIMATES

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

## 2. CASH AND CASH EQUIVALENTS

At July 31, 2004, the District has cash and cash equivalents (book balances) as follows:

Interest bearing demand deposits	95,187
Time deposits	28,500
Other	<u>150</u>
Total	<u><u>123,837</u></u>

These deposits are stated at cost, which approximates market. Under state law, these deposits or the resulting bank balances must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At July 31, 2004, \$100,000 of deposits were covered by FDIC insurance. \$23,687 were uncollateralized which is a violation of state law.

## 3. RECEIVABLES

Accounts receivable customers at July 31, 2004 consists of the following:

Accounts receivable – customers	53,516
Allowance for bad debts	<u>5,344</u>
Total accounts receivable	<u><u>48,172</u></u>

Provision is made for an estimate of uncollectible accounts with approved write-offs charged against that provision.

#### 4. CAPITAL ASSETS

The following is a summary of capital assets:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>End of Year</u>
<u>Not Depreciated</u>				
Land	19,535	-	-	19,535
<u>Depreciated</u>				
Office building	74,334	-	-	74,334
Water system	1,118,576	-	-	1,118,576
Machinery and equipment	46,987	1,346	-	48,333
Total	<u>1,259,432</u>	<u>1,346</u>	-	<u>1,260,778</u>
Accumulated depreciation	<u>801,635</u>	<u>70,585</u>	-	<u>872,220</u>
Net capital assets	<u>457,797</u>	<u>75,894</u>	-	<u>388,558</u>

#### 5. LONG-TERM LIABILITIES

##### Changes in long-term debt

The following is a summary of bond transactions of the District for the year ending July 31, 2004:

	<u>Revenue</u>
Bonds payable - beginning of year	96,000
Less bonds retired	<u>18,000</u>
Bonds payable - end of year	78,000
Less portion classified as current	<u>19,000</u>
Long-term portion	<u>59,000</u>

Bonds payable at July 31, 2004 are comprised of the following individual issue:

##### Revenue bonds:

GMAC Commercial Mortgage revenue bonds due in annual installments of principal and interest of approximately \$22,500 through 2008; interest at 4-1/2%	<u>78,000</u>
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The annual requirements to amortize all bond debt outstanding at July 31, 2004, are as follows:

Year ending July 31	Revenue	
	Principal	Interest
2005	19,000	3,510
2006	20,000	2,655
2007	21,000	1,755
2008	18,000	810
Total	78,000	8,730

#### **Notes payable-insurance**

The District financed its annual insurance premiums through an arrangement with First Insurance Funding Corporation. A note dated June 5, 2004 was executed for \$13,274 and included interest terms at twelve percent and nine monthly payments of \$1,545. The balance remaining on the note at July 31, 2004 was \$10,420.

#### **Flow of funds; restrictions on use-water revenue**

Under the terms of the bond indentures on outstanding Water System Revenue Bonds, all income revenues (hereinafter referred to as revenue) of every nature, earned or derived from operation of the Utility System are pledged and dedicated to the retirement of said bonds, and are to be set aside into the following special funds:

Revenue is first deposited in the "Water System Revenue Fund" and shall first provide for the payment of the reasonable and necessary expenses of operating and maintaining the system.

Each month, there will be set aside into a fund called the "Sinking Fund" an amount constituting 1/12 of the next maturing installment of principal and 1/12 of the next maturing installment of interest on the outstanding bonds. Such transfers shall be fully sufficient to assure the prompt payment of principal and interest installments as they become due, and may be used only for such payments.

There shall also be set aside into a "Principal and Interest Reserve Fund" an amount equal to 20% of the principal and interest payments required during the current fiscal year until there shall have been accumulated in the Reserve Account an amount equal to \$22,000.

Such amounts may be used only for the payment of maturing bonds and interest coupons for which sufficient funds are not on deposit in the Sinking Fund and as to which there would otherwise be default.

Funds will also be set aside into a "Replacement and Extension Fund" an amount equal to \$250 per month. The maximum funding requirement is \$15,000. Money in the fund may be used for the making of extraordinary repairs or replacements to the system which are necessary to keep the system in operating condition and for which money is not available as a maintenance in operation expense. Money in this fund may also be used to pay principal or interest on the bonds falling due at any time there is not sufficient money for payment in the other bond funds.

These funds are not presently set up and functioning. The District is currently curing this situation.

## 6. STATEMENT OF CASH FLOWS

Reconciliation of operating income to net cash provided by operating activities:

Operating income (loss)	(64,216)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	70,585
Change in assets and liabilities:	
Accounts receivable	(5,291)
Prepaid Expenses	1,169
Accounts payable	<u>36,148</u>
Net cash provided by operating activities	<u><u>38,395</u></u>

In addition, the District incurred notes payable in conjunction with its insurance premium financing in the amount of \$13,274.

## 5. RISK MANAGEMENT

Risks of loss are covered through the acquisition of commercial insurance. The District's risks of loss include property casualty, theft, and those associated with providing water to the public.

Schedules of insurance coverage in effect at July 31, 2004 are as follows:

<u>Company</u>	<u>Type</u>	<u>Coverage</u>	<u>Effective Dates</u>	<u>Effective Dates</u>
Century Surety	Commercial Liability	1,000,000/ 2,000,000	06/05/04	06/05/05
Hartford	Fidelity Bond	325,000	07/16/04	07/16/05
Century Surety	Commercial Property	770,000	06/05/04	06/05/05
LA Work Comp	Workman's Comp	100,000	10/01/04	10/01/05
Clarendon National	Business Auto	1,000,000	06/15/04	06/15/05
Great American	Inland Marine	148,000	06/05/04	06/05/05

*SUPPLEMENTAL INFORMATION*

**PINE HILL WATER WORKS DISTRICT #8**  
**SCHEDULE OF COMPENSATION PAID BOARD MEMBERS**  
**FOR THE YEAR ENDED JULY 31, 2003**

The following is a schedule of commissioners of the District and amounts paid them per diem for the year ended July 31, 2004:

<u>Commissioner</u>	<u>Per Diem</u>	<u>Term Expiration</u>
Gloria Prelow	1,320	Expired
Tom Dixon	300	Expired
Stephen McCutheon	1,200	05-20-2008
Guy Hamilton	480	Expired
Edwin Myers	1,260	05-20-2006
William Lee	360	05-20-2007
Brenda Grimm	<u>300</u>	05-06-2006
Total	<u>5,220</u>	

*OTHER REPORTS*

# Richard C. McCallister

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**REPORT ON COMPLIANCE**  
**AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**  
**BASED ON AN AUDIT OF FINANCIAL STATEMENTS**  
**PERFORMED IN ACCORDANCE WITH**  
**GOVERNMENT AUDITING STANDARDS**

The Board of Directors  
Pine Hill Water Works District #8  
Caddo Parish, Louisiana

I have audited the financial statements of Pine Hill Water Works District #8, Caddo Parish, Louisiana, a component unit of Caddo Parish, Louisiana, as of and for the year ended July 31, 2004, and have issued my report thereon dated November 15, 2004. I have conducted my audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether Pine Hill Water Works District #8 financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 2004-3 through 2004-6.

#### Internal Control Over Financial Reporting

In planning and performing my audit, I considered Pine Hill Water Works District #8 internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted two matters involving the internal control structure over financial reporting and its operation that I consider to be material weaknesses

which are described in the accompanying schedule of findings and questioned costs as items 2004-1 and 2004-2.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.

 **Richard C  
McCallister**

Signature  
Valid

Digitally signed by  
Richard C McCallister  
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McCallister,  
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McCallister, CPA,  
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Richard C. McCallister  
Shreveport, Louisiana  
November 15, 2004

**PINE HILL WATER WORKS DISTRICT #8**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JULY 31, 2004**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Pine Hill Water Works District #8.
2. Two reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Two are reported as material weaknesses.
3. Three instances of noncompliance material to the financial statements of Pine Hill Water Works District #8 were disclosed during the audit.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**MATERIAL WEAKNESSES**

2004-1

Segregation of Duties

*Condition:* Due to the District being limited to one person involved in the operation of the office, most of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the system. Currently, the general ledger accounting and bank reconciliations are maintained by outside professionals.

*Criteria:* When practical, personnel should have appropriate segregation of duties.

*Effect:* Accounting controls over accounts receivable, collections, and general ledger accounting are compromised.

*Recommendation:* Using outside services for the general ledger accounting and bank reconciliations assists in mitigating the condition. The Board should closely monitor the situation.

2004-2

### Accounts Receivable

*Condition:* Detailed customer accounts receivable listing has not been reconciled with the general ledger and billing adjustments including write-offs are not approved.

*Criteria:* For control over billing and collection, the detail should be reconciled monthly to the general ledger and all billing adjustments approved by a member of the Board.

*Effect:* Monthly financial statements presented to the Board have been inaccurate. In addition, controls over billing and collection have been lost.

*Recommendation:* Reports should be printed and sent to the CPA preparing the monthly bookkeeping so that he may reconcile. All billing adjustments should be authorized by a Board member after proper review.

## OTHER REPORTABLE CONDITIONS

2004-3

### Capital Assets

*Condition:* Records of capital assets are insufficient. Proper annual physical count of capital assets not done.

*Criteria:* A detailed list of capital assets including a description, date of purchase, cost, and disposition details, if any. Assets should be tagged when appropriate with numbered tags that correspond to the detail list. Physical inventory of all capital assets should be taken at least annually, noting any discrepancies.

*Effect:* State law requires that the following criteria be covered. Capital assets may be subject to unauthorized use or loss. Proper financial reporting of capital assets becomes difficult.

*Recommendation:* The District should acquire a metal tag system and inventory all of its physical assets in order to create a detailed list. In addition, a capitalization policy for recording physical assets should be adopted by the Board.

2004-4

### *Borrowing*

*Condition:* Annual premiums for insurance were financed through a note for nine months.

*Criteria:* All long-term borrowing must be approved by the State Bond Commission.

*Effect:* Obtaining debts without approval of the State Bond Commission is a violation of state law.

*Recommendation:* The Board should review its responsibilities and should seek professional advice when matters become questionable.

2004-5

### *Reserve Account Requirements*

*Condition:* The District's cash under its bond indenture requirements is not in properly titled accounts indicating compliance.

*Criteria:* The bond indenture requires that a "Water System Fund", a "Sinking Fund", a "Principal and Interest Reserve Fund", and a "Replacement and Extension Fund" should be established and funded.

*Effect:* Funds potentially may not be available in the future for use as intended by the bond indenture requirements.

*Recommendation:* All cash accounts should be titled as to their restricted use and funded at the correct levels. Monthly deposits should be made to the "Sinking Fund" to assure payment of the annual bond principal and interest.

2004-6

### *Collateralization of Bank Accounts*

*Condition:* Cash accounts not fully collateralized

*Criteria:* State law requires financial institutions to fully collateralize public funds deposited therein.

*Effect:* The public's funds are at unnecessary risk and the situation violates state law.

*Recommendation:* The District should contact the financial institution and request that they provide the appropriate security. Office personnel should monitor to see that coverage remains.

**PINE HILL WATER WORKS DISTRICT #8**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED JULY 31, 2004**

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

**REPORTABLE CONDITIONS**

2003-1 Segregation of Duties

*Condition:* Due to the District being limited to one person involved in the operation of the office, most of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the system. Currently, the general ledger accounting and bank reconciliations are maintained by outside professionals.

*Recommendation:* Using outside services for the general ledger accounting and bank reconciliations assists in mitigating the condition. The Board should closely monitor the situation.

*Current Status:* Same

2003-2 Accounts Receivable

*Condition:* Detailed customer accounts receivable listing has not been reconciled with the general ledger and billing adjustments including write-offs are not approved.

*Recommendation:* Reports should be printed and sent to the CPA preparing the monthly bookkeeping so that he may reconcile. All billing adjustments should be authorized by a Board member after proper review.

*Current Status:* Same

2003-3 Computer Control

*Condition:* The computer containing all the business activity of the District had not been backed up for many months.

*Recommendation:* A written plan should be developed that includes at least daily backup and offsite storage.

*Current Status:* System being backup daily with offsite storage.

2003-4 Disbursements

*Condition:* Instances occurred during the year where vendors were paid off of statements and some off of copies of invoices. Not all invoices that were paid were marked "Paid".

*Recommendation:* All invoices should be signed by the purchaser and by a Board member to indicate authorization and review. Pay only from original invoices.

*Current Status:* Proper procedure being followed.

2003-5 Capital Assets

*Condition:* The only existing record of capital assets is the depreciation schedule maintained by previous auditors.

*Recommendation:* The District should acquire a metal tag system and inventory all of its physical assets in order to create a detailed list. In addition, a capitalization policy for recording physical assets should be adopted by the Board.

*Current Status:* Some of the physical assets were engraved and some lists were developed. Capitalization policy was not adopted.

2003-6 Late Filing of Financial Statements

*Condition:* Annual financial statements have not been timely submitted to the Legislative Auditor's Office and the District's mortgage holder.

*Recommendation:* The District should engage accountants in time for this to occur.

*Current Status:* Financial statements are timely filed with the Legislative Auditor's Office and appropriate extensions were granted by the mortgage holder.

2003-7 Borrowing

*Condition:* Annual premiums for insurance were financed through a note for eleven months.

*Recommendation:* The Board should review its responsibilities and should seek professional advice when matters become questionable.

*Current Status:* Violation of state law reoccurred.

2003-8

Reserve Account Requirements

*Condition:* The District's cash under its bond indenture requirements is not in properly titled accounts indicating compliance.

*Recommendation:* All cash accounts should be titled as to their restricted use and funded at the correct levels. Monthly deposits should be made to the "Sinking Fund" to assure payment of the annual bond principal and interest.

*Current Status:* Cash remains in accounts not properly titled and funded.

**PINE HILL WATER WORKS DISTRICT #8  
P.O. BOX 78360  
CADDO PARISH, LOUISIANA 71137**

**NOVEMBER 15, 2004**

**CORRECTIVE ACTION PLAN**

Legislative Auditor  
State of Louisiana  
Baton Rouge, Louisiana

Pine Hill Water Works District #8 respectfully submits the following corrective action plan for the year ended July 31, 2004.

Name and address of accounting firm:

Richard C. McCallister, CPA  
P.O. Box 44046  
Shreveport, Louisiana 71134

Audit period:

July 31, 2004

The findings from the July 31, 2004 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**REPORTABLE CONDITION**

**2004-1 Segregation of Duties**

*Condition:* Due to the District being limited to one person involved in the operation of the office, most of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the system.

*Action Taken:* No additional action is being taken at this time. The Board will continue to closely monitor the situation.

**2004-2 Accounts Receivable**

*Condition:* Detailed customer accounts receivable listing has not been reconciled with the general ledger and billing adjustments including write-offs are not approved.

*Action Taken:* We have added a board member who is a certified public accountant who will oversee the financial issues. Detailed accounts receivable listings will be printed and sent to our CPA/bookkeeper to have it reconciled with the general ledger. All billing adjustments will be approved by a Board member.

2004 -3 Capital Assets

*Condition:* Records of capital assets is insufficient. Proper annual physical count of capital assets not done.

*Action Taken:* We will obtain a metal tag system and develop a more complete list of capital assets. Annual physical inventory will be taken in the future.

2004-4 Borrowing

*Condition:* Annual premiums for insurance were financed through a note for eleven months.

*Action Taken:* Board members have been reminded of the laws to prevent any reoccurrence.

2004-5 Reserve Account Requirements

*Condition:* The District's cash under its bond indenture requirements is not in properly titled accounts indicating compliance.

*Action Taken:* All fund accounts are currently being set up and funded.

2004-6 Collateralization of Bank Accounts

*Condition:* The District's cash accounts are not fully collateralized.

*Action Taken:* The bank has been notified and the situation corrected.

Very truly yours,

PINE HILL WATER WORKS DISTRICT #8

By:  **Brenda Grimm**  
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Brenda Grimm  
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Water Works District  
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